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RUEHLO/AMEMBASSY LONDON 0111
RUEHMD/AMEMBASSY MADRID 3493
RUEHMN/AMEMBASSY MONTEVIDEO 4647
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RUEHSG/AMEMBASSY SANTIAGO 9757
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TREASURY FOR SGOOCH
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TAGS: [ECON](#) [EINV](#) [ENRG](#) [EPET](#) [BL](#)
SUBJECT: SHELL SALE INCREASES U.S. INVESTMENT IN BOLIVIAN
HYDROCARBONS

REF: A. 2006 LA PAZ 1936
[1](#)B. LA PAZ 1086

Summary

[1](#)1. (SBU) Royal Dutch Shell plans to sell its shares in two Bolivian natural gas pipeline operators, Transredes and GTB, to the British firm Ashmore Energy, which is 40 percent U.S.-owned. The sale will increase total U.S. investment in Bolivia's tumultuous hydrocarbons sector from approximately USD 400 million to around USD 540 million. The GOB pledged in its May 2006 nationalization decree that it would gain majority ownership of Transredes, but negotiations have thus far not progressed. Transredes is concerned about the safety of its workers following recent attacks on its facilities in southern Bolivia that cost the company USD 1.2 million (ref B). End summary.

Shell to Sell Bolivian Assets

[1](#)2. (SBU) Transredes (Bolivian natural gas pipeline operator) Vice President Oscar Serrate told the DCM on May 30 that Royal Dutch Shell plans to sell its shares in Transredes and pipeline operator GTB, as well as some Brazilian assets, to its partner, the British company Ashmore Energy (which is 40 percent U.S.-owned). The sales are pending approval by the Bolivian and Brazilian regulatory agencies. Serrate said that President Morales, the minister of the presidency, and Transredes' workers are enthusiastic about the sale, as it demonstrates Ashmore's intentions of investing in Bolivia

despite great political uncertainty. Serrate added that the Transredes board recently approved USD 40 million of investments in pipeline construction and expansion. Serrate explained that Shell wants to decrease its investments throughout Latin America, and focus on upstream business rather than services, while Ashmore is aggressively seeking to expand its Latin American presence.

Sale Will Increase U.S. Investment in Gas Sector

13. (SBU) The sale will increase total U.S. investment in Bolivia's tumultuous hydrocarbons industry from approximately USD 400 million to around USD 540 million. Ashmore Energy will hold 50 percent of Transredes' shares (with 34 percent held by Bolivia's state oil company YPFB and 16 percent held by small shareholders) and 57.5 percent of GTB.

No Progress on GOB Take-Over

14. (SBU) The GOB pledged in its May 2006 gas nationalization decree that it would gain majority ownership of Transredes, but negotiations have thus far not progressed. Following the May 2006 decree, the GOB seized 34 percent of Transredes' shares formerly held in trust by the Bolivian Pension Fund Administrators and named two YPFB members to the Transredes board. Serrate explained that the YPFB members are afraid to vote without the backing of law or regulation for fear of being politically prosecuted later. Serrate said that the

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company is open to negotiating ownership, but would never agree to cede operating control to YPFB, in which even the GOB lacks confidence. He said that the GOB plans to hire an independent consultant to value the Transredes shares that it wishes to acquire, which Serrate took as a positive signal that the GOB does not intend to expropriate Transredes' shares. Serrate said he hoped that the sale would help Transredes work out the financing problems that it has faced since the GOB issued its nationalization decree. (After the GOB announced its intentions to take over the company, the Inter-American Development Bank and the Andean Development Corporation froze loans to Transredes (ref A).)

Transredes Concerned about Worker's Safety

15. (SBU) Serrate expressed Transredes' concern about the safety of its workers following recent attacks on its facilities in southern Bolivia that cost the company USD 1.2 million (ref B). He said that after the attacks, workers found bullets in one of the fuel tanks, which could have caused a deadly explosion if fuel had been in the tank. Transredes has told its workers that, in the future, if their lives are threatened, they should turn off the valves and leave rather than risk their lives.

Comment

16. (SBU) Ashmore Energy's willingness to increase its exposure in Bolivia given the GOB's intentions of taking over Transredes is somewhat surprising. We suspect Shell must have offered a cheap price to entice Ashmore into buying despite the risks. Transredes' safety concern reflects the general lack of law and order in Bolivia. The police and military are afraid to use force to maintain order due to fear of being subsequently persecuted for their actions. The weakness of law enforcement has been reflected during many crises of the past year, including the mining conflict in Huanuni, the invasion of Madidi National Park by settlers,

and the internal border dispute in the Chaco. End comment.
GOLDBERG